

## Message Text

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ACTION EUR-12

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FM AMCONSUL ZAGREB  
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C O N F I D E N T I A L ZAGREB 1076

E.O. 11652: GDS  
TAGS: ENRG, BENC, TECH, YO  
SUBJECT: KRSKO PROGRESS REPORT - DECEMBER 21

REF: STATE 295610; BELGRADE 6262

1. WESTINGHOUSE PROJECT MANAGER FOR KRSKO NUCLEAR PLANT, DON PARSONS, CALLED AT CONSULATE GENERAL DECEMBER 21 FOR PERIODIC BRIEFING ON STATUS OF KRSKO CONSTRUCTION. THE MAJOR POINTS HE MENTIONED WERE: A) DELIVERY TO THE OWNER (THE YUGOSLAV ELECTRIC UTILITIES) ON DECEMBER 20 OF NOTIFICATION TO SUSPEND CONSTRUCTION IN 60 DAYS IF CERTAIN CONDITIONS ARE NOT MET; B) A PROPOSAL TO INITIATE NEGOTIATIONS WITH SENIOR OFFICIALS OF THE OWNER REGARDING THE OWNER'S FAILURE TO COMPLY WITH VARIOUS PROVISIONS OF THE CONTRACT; AND C) DELIVERY OF A REVISED CONSTRUCTION SCHEDULE MOVING ESTIMATED COMPLETION DATE TO MARCH 1, 1980.

2. PARSONS PREFACED HIS DESCRIPTION OF THE SUSPENSION NOTIFICATION WITH THE OBSERVATION THAT WESTINGHOUSE HAS NOT YET BEEN ABLE TO BRING A NUMBER OF TECHNICAL SPECIALISTS TO THE SITE BECAUSE THERE IS NO HOUSING FOR THEM. WITH WORK ABOUT TO BEGIN ON THE INSTALLATION OF MOST EQUIPMENT THE PROJECT WOULD HAVE TO BE SUSPENDED WITHOUT THESE EXPERTS. TOP MANAGEMENT OF WESTINGHOUSE REVIEWED THE SITUATION IN  
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OCTOBER AND AGAIN AT THE BEGINNING OF DECEMBER, AND FINDING NO VISIBLE PROGRESS ON SEVERAL FRONTS, DETERMINED THAT "HALF-WAY MEASURES" NO LONGER WILL SUFFICE. ACCORDINGLY, A DECISION WAS MADE (WITH PARSONS' CONCURRENCE) TO ISSUE THE SUSPENSION NOTICE.

3. ALTHOUGH THERE ARE A NUMBER OF MINOR PROBLEMS, THE SUSPENSION NOTICE (DATED IN PITTSBURGH DECEMBER 6 AND DELIVERED BY PARSONS AT A MEETING WITH THE OWNER ON DECEMBER 20) CONCENTRATES ON THREE MAIN ISSUES, AS FOLLOWS:

A. NO U.S. EXPORT LICENSE HAS BEEN ISSUED. LETTER NOTES THAT THIS IS NOT ENTIRELY A USG-GOY ISSUE. CIRCUMSTANCES JUST HAPPENED TO DICTATE THAT WIDESPREAD CONCERN ON NON-PROLIFERATION CAUGHT THIS PARTICULAR CONTRACT IN MED-STREAM. WHILE WESTINGHOUSE RECOGNIZES THAT STATE AND THE NRC ARE TAKING ACTION, NONETHELESS IF THE OWNER DOES NOT HAVE A LICENSE WITHIN 60 DAYS, WESTINGHOUSE MAY HAVE TO SUSPEND CONSTRUCTION. (PARSONS EMPHASIZES "MAY." IF OWNER HAS TAKEN REASONABLE STEPS, VIZ. "AFFIRMATIVE ACTIONS," TO MOVE MATTER FORWARD, WESTINGHOUSE PROBABLY WOULD NOT SUSPEND CONSTRUCTION.)

B. SCOPE CHANGES ARE HOPELESSLY OUTDATED AND UNDER-COSTED. IN THE SAME VEIN AS WITH THE EXPORT LICENSE, WESTINGHOUSE INSISTS THAT THERE MUST BE IMMEDIATE "AFFIRMATIVE ACTION" TO RESOLVE THE IMPASSE ON AUTHORIZING CHANGES AND CHANGE ORDERS AND TO EXPEDITE PAYMENTS.

C. HOUSING (SEE PARA 2, ABOVE) IS WAY BEHIND SCHEDULE AND MAY SERIOUSLY HINDER CONSTRUCTION. WESTINGHOUSE HAS ADVANCED HUNDREDS OF THOUSANDS OF DOLLARS AND HAS NOT YET BEEN REIMBURSED.

4. PARSONS REMARKED THAT DESPITE HIS EFFORTS TO KEEP HIS EXPLANATION OF THE SUSPENSION NOTIFICATION TO THE OWNER LOW-KEY AND FACTUAL, IT WAS TAKEN AS AN ULTIMATUM BY DULAR, THE KRSKO GENERAL DIRECTOR, WHO SAID, "WE WILL NOT NEGOTIATE UNDER DURESS." PARSONS ATTEMPTED TO MAKE CLEAR AT THE OWNER'S MEETING THAT WESTINGHOUSE WAS NOT CONFIDENTIAL

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TRYING TO BE DIFFICULT, THAT IT WANTED TO GET ON WITH THE JOB, BUT THAT THERE ARE SERIOUS PROBLEMS WHICH MUST BE UNTANGLED IMMEDIATELY IF THE PROJECT IS NOT TO BOG DOWN BECAUSE OF FACTORS BEYOND THE CONTROL OF WESTINGHOUSE.

5. ALSO UNVEILED AT THE MEETING ON DECEMBER 20 WAS WESTINGHOUSE'S NEW COMPREHENSIVE SCHEDULE FOR THE PROJECT. THE NEW SCHEDULE CALLS FOR COMPLETION BY MARCH 1, 1980, A DATE PARSONS CONSIDERS "OPTIMISTIC." HOWEVER, HE BELIEVES THIS DATE IS ACHIEVABLE IF THE CONDITIONS IN THE SUSPENSION LETTER ARE MET PROMPTLY. PARSONS SAID WESTINGHOUSE HOPES NOT TO HAVE TO SUSPEND CONSTRUCTION BUT IS REASONABLY CERTAIN THAT WITHOUT THE SUSPENSION NOTICE OR SIMILAR FORM OF SHOCK THERAPY, THE OWNER WOULD SIMPLY LET MATTERS SLIDE WITHOUT RESOLUTION FOR ANOTHER SIX MONTHS TO ONE YEAR.

6. PARSONS SAID YUGOSLAV OWNER REPRESENTATIVES, WHO WERE AT DECEMBER 20 MEETING, ARE EXPECTED TO

TELEX PITTSBURGH IMMEDIATELY AFTER CHRISTMAS WITH  
A RESPONSE TO PROPOSAL FOR NEGOTIATING SESSION.

7. COMMENT: AS PARSONS HIMSELF TOLD CONSULATE OFFICERS ON  
SEVERAL OCCASIONS, THE PURPOSE OF HIS PRESENTATIONS TO  
THE YUGOSLAVS IS TO PROTECT HIS FLANKS IN THE EVENT OF A  
DISPUTE OVER CONTRACT PERFORMANCE--MOST SPECIFICALLY WITH  
REGARD TO INVOKING A PENALTY FOR LATE DELIVERY.  
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